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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

**BEFORE THE
POSTAL RATE COMMISSION**

POSTAL RATE AND FEE CHANGES, 2000 :

DOCKET NO. R2000-1

**SUPPLEMENTAL TESTIMONY
OF
RALPH L. LUCIANI
ON BEHALF OF
UNITED PARCEL SERVICE**

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My name is Ralph L. Luciani. I am submitting this Supplemental Testimony at the request of United Parcel Service. My background is set forth in my Direct Testimony filed previously in this proceeding, UPS-T-5. See Tr. 25/11774-75.

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A number of costing and revenue projection changes were recommended in my direct testimony and in the direct testimony of other UPS witnesses, using FY1998 as the base year. Since the filing of my testimony, the Postal Service has provided a projection of Test Year revenue, volumes, and costs using FY1999 as the base year for costs, and FY1999, Quarter 3, through FY2000, Quarter 2, as the source of billing determinants ("Base Year 1999 Update"). In this supplemental testimony, I have applied the following recommendations of the UPS witnesses to the Base Year 1999 Update:

1. The correction to FY1999 costs to distribute city carrier regular route elemental load costs by weight is provided in Exhibit UPS-ST-2A.
2. The correction to FY1999 costs to assign the cost of sequencing of parcels by city carriers to parcels is provided in Exhibit UPS-ST-2B (filed under seal).
3. The correction to FY1999 costs to assign to Parcel Post the specific fixed costs for Exclusive Parcel Post Special Purpose Routes is provided in Exhibit UPS-ST-2C.

1 4. The correction to the Parcel Post Alaska Bypass and OMAS TYBR and
2 TYAR revenue in the Base Year 1999 Update is provided in Exhibit UPS-ST-2D.¹

3 Due to a change in the final adjustment process for Parcel Post in the Base Year
4 1999 Update, my recommended correction to the Parcel Post final adjustments under
5 the Base Year 1998 rollforward is not applied here. Also, in my direct testimony I
6 adopted the changes to Test Year advertising costs contained in the errata filed by
7 Postal Service witness Kay on March 13, 2000. In the Base Year 1999 Update, Test
8 Year advertising costs have dropped considerably, and the share of advertising costs
9 for each subclass has also changed, as shown in Table ST-1, below.

1. In Library Reference USPS-LR-I-445, the Postal Service erroneously continues to project a significant increase in revenues from the Base Year to the Test Year for Alaska Bypass and OMAS mail at the same time that Alaska Bypass and OMAS mail volume is projected to decrease significantly. Exhibit UPS-ST-2D contains a simple, straightforward method that can be used to project Test Year Alaska Bypass and OMAS revenues using any year as the base year.

Table ST-1

Change in Test Year Advertising Costs in Base Year 1999 Update

	Advertising Costs in Original Filing (M\$)		Advertising Costs in Base Year 1999 Update (M\$)		Change in TY 2001 Advertising Costs
	BY 1998	TY 2001	BY 1999	TY 2001	
Priority Mail	79.3	71.2	82.8	54.9	-23%
Express Mail	1.0	0.9	0.0	0.0	-100%
Parcel Post	20.1	18.0	0.8	0.6	-97%
Other	200.4	180.1	157.9	104.5	-42%
Total	300.8	270.2	241.5	160.0	-41%

Source: USPS-LR-I-150, C/S 16.3.5, and USPS-LR-I-407, C/S 16.3.5

I have not made any modifications to the Test Year advertising costs contained in the Base Year 1999 Update. However, I note that there is no support for the 41% drop in Test Year advertising costs contained in the Base Year 1999 Update other than the Postal Service's contention that "the Postal Service has identified Advertising as a portion of the budget in which planned expenditure levels can and should be reduced." Response of the United States Postal Service to interrogatory UPS/USPS-52 (filed August 7, 2000). Uncertainty about the Test Year advertising costs attributable to each of the various mail classes should be a component in the Commission's cost coverage considerations.

1 **CHANGES TO PARCEL POST,**
2 **PRIORITY MAIL, AND EXPRESS MAIL**
3 **REVENUES AND COSTS BY UPS WITNESSES**

4 **A. Base Year 1999**

5 UPS witnesses Sellick, Neels, and I recommend a number of changes to Parcel
6 Post, Priority Mail, and Express Mail costing for Base Year 1998 that also apply to the
7 Base Year 1999 Update, including:

8 1. Use of the Domestic RPW system as the sole source of Base Year
9 Revenue, Pieces, and Weight estimates for Parcel Post (Sellick, UPS-T-4);

10 2. Use of Postal Service witness Degen's proposed improvements to the
11 Commission's Cost Segment 3 cost allocations (Sellick, UPS-T-2);

12 3. 100% volume variability for mail processing labor costs (Neels, UPS-T-1,
13 and Sellick, UPS-T-2);

14 4. Reallocation of dedicated air network costs in Cost Segment 14 (Neels,
15 UPS-T-3);

16 5. Reallocation of certain purchased highway transportation costs in Cost
17 Segment 14 (Neels, UPS-T-3);

18 6. Allocation of city carrier elemental load costs by weight for parcels
19 (Luciani);

7. Distribution to parcels of the cost of sequencing parcels by city carriers (Luciani); and

8. Distribution of the cost of Exclusive Parcel Post Special Purpose Routes solely to Parcel Post (Luciani).

As noted, UPS witness Sellick proposes the use of the Domestic RPW system as the sole source of Base Year Revenue, Pieces, and Weight estimates for Parcel Post (Sellick, UPS-T-4 and UPS-ST-1). The Postal Service has not provided a DRPW-only estimate of FY1999 Parcel Post volumes and revenues. As a result, I have applied the underlying growth by rate category of volume and revenues in the Postal Service's hybrid DRPW/BRPW approach from FY1998 to FY1999 to the DRPW-only FY1998 volume and revenues to estimate FY1999 volume and revenues. The results are shown in Table ST-2, below

Table ST-2

FY1999 Parcel Post Revenue and Volume with DRPW as Sole Source

	FY1998			FY1999		
	Revenue (\$000)	Volume (000)	Revenue per Piece	Revenue (\$000)	Volume (000)	Revenue Per Piece
Postal Service As Filed (Hybrid)	947,675	316,148	3.00	1,020,804	318,982	3.20
As Corrected (DRPW-only)	823,299	266,479	3.09	883,379	266,320	3.32

Source: UPS-Luciani-WP-Supp-2-1.8

I have calculated the combined impact for FY1999 on Parcel Post, Priority Mail, and Express Mail of all of the changes recommended by the UPS witnesses to the Commission's costing method. As a simplification, piggyback factors are used to capture the impact of the recommended changes on cost segments other than Cost Segments 3, 7, and 14.² The results are summarized in Table ST-3, below.

Table ST-3
FY1999 Revenue and Attributable Cost
(Commission's Costing Method, Millions of Dollars)

	As Filed			As Corrected		
	Revenue	Attributable Cost	Cost Coverage	Revenue	Attributable Cost	Cost Coverage
Priority Mail	4,533.3	3,132.4	145%	4,533.3	3,305.2	137%
Express Mail	942.0	655.4	144%	942.0	520.7	181%
Parcel Post	1020.9	938.0	109%	883.4	1,079.3	82%

Source: March 14, 2000, Cost and Revenue Analysis, Fiscal Year 1999 – PRC Version; UPS-Luciani-WP-Supp-2.

B. Test Year After Rates Results Under Postal Service Proposed Rates

Based on a simplified roll forward process, I have estimated the results of rolling forward FY1999 costs to the Test Year After Rates under the Postal Service's proposed

2. The Postal Service did not provide FY1999 piggyback factors. Thus, I have used Base Year 1998 piggyback factors.

1 rates. Additional changes to the Base Year 1999 Update changes noted on pages 4-5,
2 above, include:

3 1. A revised Parcel Post Test Year volume projection, based on corrected
4 Base Year volumes; and

5 2. Corrected Parcel Post OMAS and Alaska Test Year Revenue.

6 The resulting cost coverages under the Postal Service's proposed rates are shown in
7 Table ST-4, below.

8 **Table ST-4**
9 **TYAR Revenue and Attributable Cost**
10 *(BY 1999 Update, Commission's Costing Method, Postal Service Proposed Rates)*

	As Filed (\$000)			As Corrected (\$000)		
	Revenue	Attributable Cost	Cost Cov.	Revenue	Attributable Cost	Cost Cov.
Priority Mail	5,662	3,641	155%	5,662	3,842	147%
Express Mail	1,055	743	142%	1,055	590	179%
Parcel Post	1,211	1,104	110%	1,023	1,240	83%

11 Source: UPS-Luciani-WP-Supp-2-1.2, 1.3, and 1.4; Response to POIR No. 16, page 4
12 (July 27, 2000); USPS-LR-I-442.

13 Two initial corrections were made to the Express Mail Test Year revenue and
14 costs as filed by the Postal Service in the Base Year 1999 Update. First, in USPS-LR-I-
15 436 the Postal Service inadvertently used R97-1 rates to derive the Express Mail
16 revenue in the Test Year After Rates. Using the Postal Service's proposed R2000-1

1 rates increases Express Mail TYAR revenue from \$1,016.1 thousand to \$1,054.9
2 thousand. Second, the total Test Year Before Rates attributable cost for Express Mail
3 in Cost Segment 3 under Commission costing in USPS-LR-I-424 does not include \$23.1
4 million of "Fixed Attributable (PRC)" costs in Cost Segment 3 listed in the library
5 reference as attributable to Express Mail. Including this fixed attributable cost increases
6 Express Mail TYBR attributable costs by \$23.1 million, before contingency. These Cost
7 Segment 3 Express Mail fixed attributable costs are included in the Express Mail costs
8 in the Test Year After Rates (albeit in the "Expedited Delivery" -- CS 3.4 -- total). See
9 UPS-Luciani-WP-Supp-2-1.9 for details.

10 **C. Test Year After Rates – Revised Cost Coverages**

11 I have calculated the Priority Mail and Parcel Post rate increases that would
12 result from the cost coverage recommendations made by UPS witness Sappington, as
13 shown in Table ST-5, below. Table ST-5 also shows the rate increase needed for
14 Express Mail to cover its revised costs using the Postal Service's proposed markup ratio
15 normalized to the systemwide coverage.

Table ST-5

TYAR Revenue and Attributable Cost

(BY 1999 Update, Commission's Costing Method, Revised Cost Coverages)

	As Filed (\$000)			As Corrected and Revised (\$000)			
	Revenue	Attributable Cost	Rate Increase	Revenue	Attributable Cost	Cost Coverage	Rate Increase
Priority Mail	5,662	3,641	15%	5,914	3,435	172%	43%
Express Mail	1,055	743	4%	1,223	616	199%	17%
Parcel Post	1,211	1,104	3%	1,047	943	111%	38%

Source: UPS-Luciani-WP-Supp-2-1.1

D. Parcel Post Volumes

In my direct testimony, I updated Postal Service witness Tolley's analysis of Parcel Post volumes to reflect Mr. Sellick's recommendations by correcting the actual Parcel Post volume data for Base Year 1998 and rerunning Dr. Tolley's model to predict Parcel Post volume by rate category for the Test Year Before and After Rates. I have rerun Dr. Tolley's model to predict Parcel Post volume by rate category for the Test Year After Rates with the "As Corrected and Revised" Parcel Post revenues and costs noted in Table ST-5. The results for both the Test Year before and after rates are summarized in Table ST-6, below. See UPS-Luciani-WP-Supp-2-2 for further details.

Table ST-6
Corrected Projection of Parcel Post Volumes
(BY 1999 Update, in thousands)

	Postal Service As Filed		As Corrected	
	TYBR	TYAR	TYBR	TYAR
Intra-BMC	28,817	26,254	34,402	24,547
Inter-BMC	51,620	47,638	56,035	40,386
DBMC	298,009	300,203	220,429	169,860
Total	378,447	374,096	310,865	234,793

Source: UPS-Luciani-WP-Supp-2-2, page 5; UPS-Luciani-WP-3-2.1, page 4

CONCLUSION

The changes recommended by UPS's witnesses to the costs, revenue, volumes, and cost coverages of Parcel Post, Priority Mail, and Express Mail, coupled with the actual FY1999 results (which differ significantly from the originally projected FY1999 estimates), lead to significant changes in the rate increases necessary for these subclasses. The impact of these changes on the revenues, volumes, attributable costs, and resulting cost coverages and rate increases for Parcel Post, Priority Mail, and Express Mail are indicated in the main body of my supplemental testimony.

Distribution of Elemental Load for Parcels by Weight
Weight of Parcels by Class/Subclass of Mail for Each City Carrier Stop Type
Base Year 1999, Commission Costing Method

	AVG WEIGHT PER PARCEL	SDR			MDR			BAM		
CLASS TITLE	POUNDS	PARCELS (000)	LBS (000)	% of WEIGHT	PARCELS (000)	LBS (000)	% of WEIGHT	PARCELS (000)	LBS (000)	% of WEIGHT
FOOTNOTE	A	B	C	D	B	C	D	B	C	D
FIRST-CLASS MAIL:										
SINGLE-PIECE LETTERS	0.28	119,034	33,460	1.89%	38,876	10,928	1.88%	68,637	19,293	3.12%
PRESORT LETTERS	0.14	9,334	1,264	0.07%	2,611	354	0.06%	1,977	268	0.04%
TOTAL LETTERS		128,368			41,487			70,614		
SINGLE-PIECE CARDS		0			0			0		
PRESORT CARDS		0			0			0		
TOTAL CARDS		0			0			0		
TOTAL FIRST-CLASS		128,368	34,723	1.96%	41,487	11,281	1.94%	70,614	19,561	3.17%
PRIORITY MAIL	2.80	178,349	498,706	28.13%	63,023	176,227	30.38%	99,001	276,830	44.82%
EXPRESS MAIL	7.98	1,583	12,637	0.71%	311	2,483	0.43%	695	5,548	0.90%
MAILGRAMS		0	0	0.00%	0	0	0.00%	0	0	0.00%
PERIODICALS:										
IN-COUNTY	0.33	1,988	655	0.04%	1,045	344	0.06%	1,145	377	0.06%
OUTSIDE COUNTY:										
REGULAR	0.60	16,018	9,596	0.54%	8,421	5,045	0.87%	9,229	5,529	0.90%
NON-PROFIT	0.33	4,717	1,554	0.09%	2,480	817	0.14%	2,718	896	0.14%
CLASSROOM	0.62	132	82	0.00%	70	44	0.01%	76	47	0.01%
TOTAL PERIODICALS		22,855	11,887	0.67%	12,016	6,250	1.08%	13,168	6,849	1.11%
STANDARD A:										
SINGLE PIECE RATE	0.55	1,724	955	0.05%	606	336	0.06%	298	165	0.03%
COMMERCIAL STANDARD:										
ENHANCED CARR RTE	0.20	16,306	3,207	0.18%	4,169	820	0.14%	1,657	326	0.05%
REGULAR	0.55	236,138	130,746	7.38%	80,796	44,735	7.71%	41,771	23,128	3.74%
TOTAL COMMERCIAL		252,444			84,965			43,428		
AGGREGATE NONPROFIT:										
NONPROF ENH CARR RTE	0.38	1,457	550	0.03%	434	164	0.03%	307	116	0.02%
NONPROFIT	0.37	14,863	5,429	0.31%	4,788	1,749	0.30%	2,581	943	0.15%
TOTAL AGGREG NONPROFIT		16,320			5,222			2,888		
TOTAL STANDARD A		270,488	140,885	7.95%	90,793	47,803	8.24%	46,614	24,677	3.99%
STANDARD MAIL (B):										
PARCELS ZONE RATE	6.04	120,512	727,385	41.03%	33,822	204,142	35.20%	27,025	163,117	26.41%
BOUND PRINTED MATTER	3.07	86,052	264,392	14.91%	33,504	102,940	17.75%	31,873	97,929	15.85%
SPECIAL STANDARD	1.65	39,575	65,222	3.68%	14,041	23,141	3.99%	8,308	13,692	2.22%
LIBRARY MAIL	2.09	3,586	7,501	0.42%	896	1,874	0.32%	3,730	7,802	1.26%
TOTAL STANDARD (B)		249,725	1,064,499	60.05%	82,263	332,097	57.26%	70,936	282,540	45.74%
US POSTAL SERVICE	0.43	245	106	0.01%	309	134	0.02%	249	108	0.02%
FREE MAIL	0.87	8,090	7,033	0.40%	2,941	2,557	0.44%	440	382	0.06%
INTERNATIONAL MAIL	0.43	5,336	2,319	0.13%	2,730	1,187	0.20%	2,792	1,214	0.20%
TOTAL MAIL										
TOTAL SPECIAL SERVICES			0		0	0		0	0	
TOTAL VOLUME		865,039	1,772,797	100.00%	295,873	580,019	100.00%	304,509	617,710	100.00%

Notes:

- [A] UPS-Luciani-WP-2-D, p. 2, Summary.
- [B] USPS-LR-I-444, CS06&7.xls, tab 7.0.8, parcel volumes (from City CCS 1999).
 These data include only a total volume for periodicals. In USPS-LR-I-444, RPW data are used to distribute the total volume to subclass for periodicals. USPS-LR-I-444, CS06&7.xls, tab 7.0.8, column 1.
- [C] Total Weight is the product of number of parcels and average weight per piece.
- [D] The percentage of weight is the number of pounds for each respective mail class divided by total weight for all mail classes.

Distribution of Elemental Load for Parcels by Weight

City Carrier Load Costs for Parcels by Stop Type Base Year 1999, Commission Costing Method

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	As Filed				As Corrected				Difference
		PARCELS LOAD SDR	PARCELS LOAD MDR	PARCELS LOAD BAM	PARCELS TOTAL LOAD	PARCELS LOAD SDR	PARCELS LOAD MDR	PARCELS LOAD BAM	PARCELS TOTAL LOAD	
	COLUMN NUMBER UNITS FOOTNOTES COLUMN SOURCE/NOTES	(1) \$(000) A	(2) \$(000) B	(3) \$(000) C	(4) \$(000) D	(5) \$(000) E	(6) \$(000) F	(7) \$(000) G	(8) \$(000) H	(9) \$(000) I
1	FIRST-CLASS MAIL:									
2	SINGLE-PIECE LETTERS	20,007	7,665	4,562	32,235	2,744	1,099	632	4,475	(27,759)
3	PRESORT LETTERS	1,569	515	131	2,215	104	36	9	148	(2,067)
4	TOTAL LETTERS	21,576	8,180	4,693	34,450	2,848	1,135	641	4,623	(29,826)
5	SINGLE-PIECE CARDS	-	-	-	-	-	-	-	-	-
6	PRESORT CARDS	-	-	-	-	-	-	-	-	-
7	TOTAL CARDS	-	-	-	-	-	-	-	-	-
8	TOTAL FIRST-CLASS	21,576	8,180	4,693	34,450	2,848	1,135	641	4,623	(29,826)
9	PRIORITY MAIL	29,977	12,427	6,580	48,984	40,902	17,725	9,070	67,697	18,713
10	EXPRESS MAIL	266	61	46	374	1,036	250	182	1,468	1,094
11	MAILGRAMS	-	-	-	-	-	-	-	-	-
12	PERIODICALS:									
13	IN-COUNTY				-	54	35	12	101	101
14	OUTSIDE COUNTY:									
15	REGULAR				-	787	507	181	1,476	1,476
16	NON-PROFIT				-	127	82	29	239	239
17	CLASSROOM				-	7	4	2	13	13
18	TOTAL PERIODICALS	3,841	2,369	875	7,086	975	629	224	1,828	(5,258)
19	STANDARD A:									
20	SINGLE PIECE RATE	290	119	20	429	78	34	5	117	(312)
21	COMMERCIAL STANDARD:									
22	ENHANCED CARR RTE	2,741	822	110	3,673	263	82	11	356	(3,317)
23	REGULAR	39,690	15,931	2,776	58,397	10,723	4,500	758	15,980	(42,417)
24	TOTAL COMMERCIAL	42,431	16,753	2,886	62,070	10,986	4,582	768	16,337	(45,734)
25	AGGREGATE NONPROFIT:									
26	NONPROF ENH CARR RTE	245	86	20	351	45	16	4	65	(286)
27	NONPROFIT	2,498	944	172	3,614	445	176	31	652	(2,962)
28	TOTAL AGGREG NONPROFIT	2,743	1,030	192	3,965	490	192	35	717	(3,247)
29	TOTAL STANDARD A	45,464	17,902	3,098	66,464	11,555	4,808	809	17,171	(49,293)
30	STANDARD MAIL (B):									
31	PARCELS ZONE RATE	20,256	6,669	1,796	28,721	59,657	20,533	5,344	85,534	56,813
32	BOUND PRINTED MATTER	14,464	6,606	2,118	23,188	21,684	10,354	3,209	35,246	12,058
33	SPECIAL STANDARD	6,652	2,769	552	9,973	5,349	2,327	449	8,125	(1,847)
34	LIBRARY MAIL	603	177	248	1,027	615	188	256	1,059	32
35	TOTAL STANDARD (B)	41,974	16,220	4,715	62,909	87,305	33,403	9,257	129,965	67,056
36	US POSTAL SERVICE	41	61	17	119	9	14	4	26	(93)
37	FREE MAIL	1,360	580	29	1,969	577	257	13	846	(1,122)
38	INTERNATIONAL MAIL	897	538	186	1,621	190	119	40	349	(1,271)
39	TOTAL MAIL	145,396	58,339	20,239	223,974	145,396	58,339	20,239	223,974	-
51	TOTAL SPECIAL SERVICES	-	-	-	-	-	-	-	-	-
52	TOTAL VOLUME VARIABLE	145,396	58,339	20,239	223,974	145,396	58,339	20,239	223,974	-
53	OTHER	-	-	-	-	-	-	-	-	-
54	GRAND TOTAL	-	-	-	-	-	-	-	-	-

Notes:

- [A] USPS-LR-I-444, CS06&7.xls, tab 7.0.6.5, column 3. The cost of periodicals is distributed to subclass using RPW data, USPS-LR-I-444, CS06&7.xls, tab 7.0.8, column 1.
- [B] USPS-LR-I-444, CS06&7.xls, tab 7.0.6.6, column 8. The cost of periodicals is distributed to subclass using RPW data, USPS-LR-I-444, CS06&7.xls, tab 7.0.8, column 1.
- [C] USPS-LR-I-444, CS06&7.xls, tab 7.0.6.7, column 8. The cost of periodicals is distributed to subclass using RPW data, USPS-LR-I-444, CS06&7.xls, tab 7.0.8, column 1.
- [D] [A] + [B] + [C]
- [E] UPS-Luciani-WP-Supp-1-B-1, p. 19, WS 7.0.6.5, Distrib. of LTR SDR Load VVC, column 3.
- [F] UPS-Luciani-WP-Supp-1-B-1, p. 21, WS 7.0.6.6, column 6.
- [G] UPS-Luciani-WP-Supp-1-B-1, p. 23, WS 7.0.6.7, column 8.
- [H] [E] + [F] + [G]
- [I] [H] - [D]

Distribution of Elemental Load for Parcels by Weight

Total City Carrier Load and Street Support Costs Base Year 1999, Commission Costing Method

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	As Filed	As Corrected	Difference	As Filed	As Corrected	Difference	Difference
		TOTAL LOAD	TOTAL LOAD	TOTAL LOAD	TOTAL STREET SUPPORT	TOTAL STREET SUPPORT	TOTAL STREET SUPPORT	TOTAL LOAD AND STREET SUPPORT
	COLUMN NUMBER UNITS FOOTNOTES COLUMN SOURCE/NOTES	(1) \$(000) A	(2) \$(000) B	(3) \$(000) C	(4) \$(000) D	(5) \$(000) E	(6) \$(000) F	(7) \$(000) G
1	FIRST-CLASS MAIL:							
2	SINGLE-PIECE LETTERS	356,553	328,793	(27,759)	306,682	301,819	(4,863)	(32,622)
3	PRESORT LETTERS	325,373	323,306	(2,067)	175,211	174,848	(362)	(2,429)
4	TOTAL LETTERS	681,926	652,100	(29,826)	481,893	476,667	(5,226)	(35,052)
5	SINGLE-PIECE CARDS	21,923	21,923	-	16,634	16,634	(0)	(0)
6	PRESORT CARDS	16,036	16,036	-	6,684	6,684	(0)	(0)
7	TOTAL CARDS	37,958	37,958	-	23,318	23,318	(0)	(0)
8	TOTAL FIRST-CLASS	719,884	690,058	(29,826)	505,211	499,985	(5,226)	(35,052)
9	PRIORITY MAIL	54,046	72,760	18,713	28,016	31,295	3,278	21,992
10	EXPRESS MAIL	24,924	26,018	1,094	7,083	7,275	192	1,286
11	MAILGRAMS	116	116	-	62	62	(0)	(0)
12	PERIODICALS:							
13	IN-COUNTY	7,886	7,429	(457)	3,832	3,752	(80)	(537)
14	OUTSIDE COUNTY:							
15	REGULAR	63,553	59,868	(3,685)	44,547	43,902	(646)	(4,331)
16	NON-PROFIT	18,716	17,631	(1,085)	10,766	10,576	(190)	(1,275)
17	CLASSROOM	526	495	(30)	303	297	(5)	(36)
18	TOTAL PERIODICALS	90,681	85,423	(5,258)	59,447	58,526	(921)	(6,179)
19	STANDARD A:							
20	SINGLE PIECE RATE	790	478	(312)	1,990	1,935	(55)	(366)
21	COMMERCIAL STANDARD:							
22	ENHANCED CARR RTE	327,899	324,582	(3,317)	129,966	129,385	(581)	(3,898)
23	REGULAR	330,970	288,553	(42,417)	187,639	180,208	(7,431)	(49,848)
24	TOTAL COMMERCIAL	658,869	613,135	(45,734)	317,605	309,593	(8,012)	(53,745)
25	AGGREGATE NONPROFIT:							
26	NONPROF ENH CARR RTE	17,222	16,936	(286)	7,973	7,923	(50)	(336)
27	NONPROFIT	78,014	75,053	(2,962)	37,910	37,391	(519)	(3,480)
28	TOTAL AGGREG NONPROFIT	95,236	91,989	(3,247)	45,883	45,314	(569)	(3,816)
29	TOTAL STANDARD A	754,894	705,601	(49,293)	365,478	356,843	(8,635)	(57,928)
30	STANDARD MAIL (B):							
31	PARCELS ZONE RATE	29,349	86,162	56,813	11,304	21,256	9,952	66,766
32	BOUND PRINTED MATTER	25,189	37,247	12,058	11,070	13,183	2,112	14,171
33	SPECIAL STANDARD	10,520	8,672	(1,847)	5,011	4,688	(324)	(2,171)
34	LIBRARY MAIL	1,115	1,147	32	817	823	6	38
35	TOTAL STANDARD (B)	66,173	133,229	67,056	28,202	39,949	11,747	78,803
36	US POSTAL SERVICE	1,439	1,346	(93)	3,091	3,075	(16)	(109)
37	FREE MAIL	2,118	996	(1,122)	685	489	(197)	(1,319)
38	INTERNATIONAL MAIL	5,564	4,292	(1,271)	4,411	4,188	(223)	(1,494)
39	TOTAL MAIL	1,719,839	1,719,839	-	1,001,686	1,001,685	(1)	(1)
51	TOTAL SPECIAL SERVICES	106,426	106,426	-	25,605	25,605	0	0
52	TOTAL VOLUME VARIABLE	1,826,265	1,826,265	-	1,027,291	1,027,290	(1)	(1)
53	OTHER	22,164	22,164	0	825,626	825,626	0	0
54	GRAND TOTAL	1,848,429	1,848,429	-	1,852,917	1,852,916	(1)	(1)

Note:

- [A] USPS-LR-I-444, CS06&7.xls, tab 7.0.3.1, column 2.
 [B] UPS-Luciani-WP-Supp-1-B-1, p. 16, WS 7.0.3.1, Letter & SPR, column 2.
 [C] [B] - [A]
 [D] UPS-Luciani-WP-Supp-1-A, column 15.
 [E] UPS-Luciani-WP-Supp-1-B-1, p. 8, tab CS 7 Detail, column 17.
 [F] [E] - [D]
 [G] [C] + [F]

EXHIBIT UPS-ST-2B:
DIRECT ATTRIBUTION OF
SEQUENCING OF PARCELS --
FILED UNDER SEAL
ON AUGUST 14, 2000

Calculation of SPR Specific Fixed Costs
Without Revisions in Elemental Load and Street Support
Base Year 1999, Commission Costing Method

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	TOTAL SPR (EXCLUDING STREET SUPPORT)	STREET SUPPORT IN-OFFICE DIRECT LABOR	STREET SUPPORT LOAD	STREET SUPPORT ACCESS	STREET SUPPORT ROUTE	TOTAL SPR	TOTAL IOCS COSTS: EXCLUSIVE PARCEL POST ROUTES	SPR SPECIFIC FIXED COSTS
	COLUMN NUMBER CALCULATIONS FOOTNOTES UNITS COLUMN SOURCE/NOTES	(1) A \$(000) WS 7.0.3 C23	(2) B \$(000) WS OUTPUTS TO CRA	(3) B \$(000) WS OUTPUTS TO CRA	(4) B \$(000) WS OUTPUTS TO CRA	(5) B \$(000) WS OUTPUTS TO CRA	(6) C \$(000)	(7) D \$(000) WS INPUTS IOCS	(8) E \$(000)
1	FIRST-CLASS MAIL:								
2	SINGLE-PIECE LETTERS	36,330	3,565	1,426	1,867	304	43,493		
3	PRESORT LETTERS	1,788	1,638	1,302	68	283	5,077		
4	TOTAL LETTERS	38,117	5,203	2,728	1,934	587	48,570		
5	SINGLE-PIECE CARDS	1,926	196	88	99	4	2,313		
6	PRESORT CARDS	102	53	64	4	1	224		
7	TOTAL CARDS	2,028	249	152	103	6	2,537		
8	TOTAL FIRST-CLASS	40,145	5,452	2,880	2,037	593	51,107		
9	PRIORITY MAIL	29,817	133	216	1,122	614	31,903		
10	EXPRESS MAIL	10,145	12	100	325	51	10,631		
11	MAILGRAMS	79	-	0	3	2	85		
12	PERIODICALS:								
13	IN-COUNTY	289	29	32	11	60	431		
14	OUTSIDE COUNTY:								
15	REGULAR	2,410	471	254	90	486	3,711		
16	NON-PROFIT	710	98	75	26	143	1,052		
17	CLASSROOM	20	3	2	1	4	30		
18	TOTAL PERIODICALS	3,439	601	363	128	694	5,224		
19	STANDARD A:								
20	SINGLE PIECE RATE	2,687	17	3	115	38	2,860		
21	COMMERCIAL STANDARD:								
22	ENHANCED CARR RTE	2,036	887	1,312	76	800	5,110		
23	REGULAR	2,424	1,845	1,324	90	657	6,340		
24	TOTAL COMMERCIAL	4,459	2,731	2,636	166	1,457	11,449		
25	AGGREGATE NONPROFIT:								
26	NONPROF ENH CARR RTE	181	72	69	7	27	355		
27	NONPROFIT	680	365	312	25	111	1,493		
28	TOTAL AGGREG NONPROFIT	862	437	381	32	137	1,849		
29	TOTAL STANDARD A	8,008	3,184	3,020	314	1,631	16,158		
30	STANDARD MAIL (B):								
31	PARCELS ZONE RATE	10,967	21	117	412	343	11,860	39,247	27,386
32	BOUND PRINTED MATTER	16,711	24	101	623	256	17,715		
33	SPECIAL STANDARD	6,757	12	42	252	144	7,207		
34	LIBRARY MAIL	965	2	4	36	41	1,049		
35	TOTAL STANDARD (B)	35,400	59	265	1,322	784	37,830		
36	US POSTAL SERVICE	215	45	6	11	12	289		
37	FREE MAIL	30	4	8	2	5	49		
38	INTERNATIONAL MAIL	4,338	40	22	159	31	4,591		
39	TOTAL MAIL	131,617	9,530	6,880	5,423	4,416	157,867		
40	SPECIAL SERVICES:								
41	REGISTRY	331	7	20	-	-	359		
42	CERTIFIED	-	91	370	-	-	461		
43	INSURANCE	-	3	26	-	-	29		
44	COD	64	3	8	-	-	74		
45	SPECIAL DELIVERY	-	-	-	-	-	-		
46	MONEY ORDERS	-	-	-	-	-	-		
47	STAMPED ENVELOPES	-	-	-	-	-	-		
48	SPECIAL HANDLING	-	-	-	-	-	-		
49	POST OFFICE BOX	-	2	-	-	-	2		
50	OTHER	569	13	2	-	-	585		
51	TOTAL SPECIAL SERVICES	964	120	426	-	-	1,510		
52	TOTAL VOLUME VARIABLE	132,581	9,651	7,306	5,423	4,416	159,376		
53	OTHER	190,050	1,247	89	45,844	44,621	281,850		
54	GRAND TOTAL	322,630	10,898	7,395	51,267	49,037	441,227		

Notes:

- [A] UPS-Luciani-WP-Supp-1-B-2, p. 9, SPR Specific Fixed Costs. UPS-Luciani-WP-1-B-2 contains revisions to letter route street support. These revisions do not affect SPR street support. Therefore, the values shown here represent those that would be calculated directly from USPS-LR-I-444, CS06&7.xls.
- [B] Total IOCS costs for Exclusive Parcel Post routes is obtained from USPS-LR-I-444, CS06&7.xls, tab Input IOCS, line 7.
- [C] SPR Specific Fixed Costs is the difference between IOCS Total Accrued costs and the amount distributed to SPR Parcel Post.
- [D] Total IOCS costs for Exclusive Parcel Post routes is obtained from USPS-LR-I-444, CS06&7.xls, tab Input IOCS, line 7.
- [E] SPR Specific Fixed Costs is the difference between IOCS Total Accrued costs and the amount distributed to SPR Parcel Post.

Calculation of SPR Specific Costs
Revised Elemental Load and Street Support
Base Year 1999, Commission Costing Method

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	TOTAL SPR (EXCLUDING STREET SUPPORT)	STREET SUPPORT IN-OFFICE DIRECT LABOR	STREET SUPPORT LOAD	STREET SUPPORT ACCESS	STREET SUPPORT ROUTE	TOTAL SPR	TOTAL IOCS COSTS: EXCLUSIVE PARCEL POST ROUTES	SPR SPECIFIC FIXED COSTS
	COLUMN NUMBER CALCULATIONS FOOTNOTES UNITS COLUMN SOURCE/NOTES	(1) A \$(000) WS 7.0.3 C23	(2) A \$(000) WS OUTPUTS TO CRA	(3) A \$(000) WS OUTPUTS TO CRA	(4) A \$(000) WS OUTPUTS TO CRA	(5) A \$(000) WS OUTPUTS TO CRA	(6) A \$(000)	(7) B \$(000) WS INPUTS IOCS	(8) C \$(000)
1	FIRST-CLASS MAIL:								
2	SINGLE-PIECE LETTERS	36,330	3,565	1,315	1,867	304	43,381		
3	PRESORT LETTERS	1,788	1,638	1,293	68	283	5,069		
4	TOTAL LETTERS	38,117	5,203	2,609	1,934	587	48,450		
5	SINGLE-PIECE CARDS	1,926	196	88	99	4	2,313		
6	PRESORT CARDS	102	53	64	4	1	224		
7	TOTAL CARDS	2,028	249	152	103	6	2,537		
8	TOTAL FIRST-CLASS	40,145	6,452	2,761	2,037	593	50,987		
9	PRIORITY MAIL	29,817	133	291	1,122	614	31,978		
10	EXPRESS MAIL	10,145	12	104	325	51	10,636		
11	MAILGRAMS	79	-	0	3	2	85		
12	PERIODICALS:								
13	IN-COUNTY	299	29	30	11	60	429		
14	OUTSIDE COUNTY:	-	-	-	-	-	-		
15	REGULAR	2,410	471	240	90	486	3,697		
16	NON-PROFIT	710	98	71	26	143	1,048		
17	CLASSROOM	20	3	2	1	4	29		
18	TOTAL PERIODICALS	3,439	601	342	128	694	5,203		
19	STANDARD A:								
20	SINGLE PIECE RATE	2,887	17	2	115	38	2,859		
21	COMMERCIAL STANDARD:	-	-	-	-	-	-		
22	ENHANCED CARR RTE	2,036	887	1,299	76	800	5,096		
23	REGULAR	2,424	1,845	1,154	90	657	6,170		
24	TOTAL COMMERCIAL	4,459	2,731	2,453	166	1,457	11,266		
25	AGGREGATE NONPROFIT:	-	-	-	-	-	-		
26	NONPROF ENH CARR RTE	181	72	68	7	27	354		
27	NONPROFIT	680	365	300	25	111	1,482		
28	TOTAL AGGREG NONPROFIT	862	437	368	32	137	1,836		
29	TOTAL STANDARD A	8,008	3,184	2,823	314	1,631	15,961		
30	STANDARD MAIL (B):								
31	PARCELS ZONE RATE	10,967	21	345	412	343	12,088	39,247	27,159
32	BOUND PRINTED MATTER	16,711	24	149	623	256	17,763		
33	SPECIAL STANDARD	6,757	12	35	252	144	7,200		
34	LIBRARY MAIL	965	2	5	36	41	1,049		
35	TOTAL STANDARD (B)	35,400	59	533	1,322	784	38,099		
36	US POSTAL SERVICE	215	45	5	11	12	288		
37	FREE MAIL	30	4	4	2	5	45		
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39	TOTAL MAIL	131,617	9,530	6,880	5,423	4,416	157,867		
40	SPECIAL SERVICES:								
41	REGISTRY	331	7	20	-	-	359		
42	CERTIFIED	-	91	370	-	-	461		
43	INSURANCE	-	3	26	-	-	29		
44	COD	64	3	8	-	-	74		
45	SPECIAL DELIVERY	-	-	-	-	-	-		
46	MONEY ORDERS	-	-	-	-	-	-		
47	STAMPED ENVELOPES	-	-	-	-	-	-		
48	SPECIAL HANDLING	-	-	-	-	-	-		
49	POST OFFICE BOX	-	2	-	-	-	2		
50	OTHER	569	13	2	-	-	585		
51	TOTAL SPECIAL SERVICES	964	120	426	-	-	1,510		
52	TOTAL VOLUME VARIABLE	132,581	9,651	7,306	5,423	4,416	159,376		
53	OTHER	190,050	1,247	89	45,844	44,621	281,850		
54	GRAND TOTAL	322,630	10,898	7,395	51,267	49,037	441,227		

Notes:

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[B] Total IOCS costs for Exclusive Parcel Post routes is obtained from USPS-LR-I-444, CS06&7.xls, tab Input IOCS, line 7.

[C] SPR Specific Fixed Costs is the difference between IOCS Total Accrued costs and the amount distributed to SPR Parcel Post.

Correct Method for Projecting Parcel Post Test Year Alaska and OMAS Revenue

--> The test year revenue estimation for Alaska and OMAS volume in USPS-LR-I-445 fails to account for the decrease in the Alaska and OMAS volume from the Base Year to the Test Year.

	<u>Intra-BMC</u>	<u>Inter-BMC</u>	<u>DBMC (a)</u>	<u>Source</u>
[1] Base Year RPW Revenue	106,464,668	283,408,101	569,070,560	USPS-LR-I-445, excludes OMAS/Alaska (b)
[2] Base Year Volume	30,930,271	53,850,479	195,834,852	USPS-LR-I-445, excludes OMAS/Alaska (b)
[3] Base Year Revenue Per Piece	3.44	5.26	2.91	[2]/[3]
[4] TYBR Revenue	94,559,682	266,375,081	736,556,634	USPS-LR-I-445, excludes OMAS/Alaska (b)
[5] TYBR Volume	27,495,992	50,614,551	253,836,747	USPS-LR-I-445, excludes OMAS/Alaska (b)
[6] TYBR Revenue per Piece	3.44	5.26	2.90	[4]/[5]
[7] Percent Increase from BY	-0.1%	0.0%	-0.1%	[6]/[3]-1
[8] TYAR Revenue	94,921,638	268,835,344	750,435,924	USPS-LR-I-445, excludes OMAS/Alaska (b)
[9] TYAR Volume	25,050,582	46,710,097	255,706,190	USPS-LR-I-445, excludes OMAS/Alaska (b)
[10] TYAR Revenue per Piece	3.79	5.76	2.93	[8]/[9]
[11] Percent Increase from BY	10.1%	9.4%	1.0%	[10]/[3]-1

	<u>Intra-BMC</u> <u>Alaska</u>	<u>Inter-BMC</u> <u>OMAS</u>	<u>DBMC</u> <u>OMAS</u>	<u>Total</u> <u>OMAS</u>	
[12] Base Year Revenue	12,965,722	11,872,544	3,162	11,875,706	USPS-LR-I-435, PPHybridp.xls, H-1, p. 13
[13] Base Year Volume	1,892,812	2,397,612	1,156	2,398,768	USPS-LR-I-435, PPHybridp.xls, H-1, p. 6 (c)
[14] Base Year Revenue Per Piece	6.85	4.95	2.73		[12]/[13]
[15] TYBR Volume	1,321,376	1,005,768	-	1,005,768	USPS-T-36, Att. D (d)
[16] TYBR Revenue per Piece	6.84	4.95	2.73		[14]*([1]+[7])
[17] TYBR Revenue	9,043,374	4,980,332	-	4,980,332	[15]*[16]
[18] TYAR Volume	1,203,857	928,182	-	928,182	USPS-T-36, Att. D (d)
[19] TYAR Revenue per Piece	7.54	5.42	2.76		[14]*([1]+[11])
[20] TYAR Revenue	9,077,991	5,026,330	-	5,026,330	[18]*[19]

Correction Needed to As Filed:

[21] TYBR Revenue As Filed	14,954,495	13,697,285		13,697,285	USPS-LR-I-445
[22] Correction to TYBR Revenue	(5,911,121)	(8,716,953)	-	(8,716,953)	[17] - [21]
[23] Total TYBR Revenue Correction				(14,628,074)	
[24] TYAR Revenue As Filed	15,175,963	13,900,135		13,900,135	USPS-LR-I-445
[25] Correction to TYAR Revenue	(6,097,972)	(8,873,805)	-	(8,873,805)	[20] - [24]
[26] Total TYAR Revenue Correction				(14,971,777)	

Notes:

The use of Base Year in this Exhibit refers to the USPS-LR-I-445 base year period of 1999Q3 to 2000Q2.

(a) - DBMC excludes DSCF and DDU volumes and revenues.

(b) - PPHybridRev.xls, tab Revenue Calc.

(c) - USPS-LR-I-445 does not provide the OMAS volume breakdown between Inter-BMC and DBMC. The base year OMAS volume breakdown herein was estimated assuming that the OMAS revenue per piece would be proportional to base year revenue per piece for the inter-BMC and DBMC. If the actual base year OMAS volume breakdown becomes available it should be substituted.

(d) - All Test Year OMAS volume is assumed to be inter-BMC in USPS-T-36, since the sum of inter-BMC and OMAS volume matches total inter-BMC volume in Attachment D of USPS-T-36.